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To the Shareholders of
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of MindGeek S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and of its financial performace and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier*" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and the ISAs are further described in the « Responsibilities of "*Réviseur d'Entreprises Agréé*" for the Audit of the Consolidated Financial Statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of "*Réviseur d'Entreprises Agréé*" thereon.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the Consolidated Financial Statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibility of the "*Réviseur d'Entreprises Agréé*" for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "*Réviseur d'Entreprises Agréé*" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law dated 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law dated July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;

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- Conclude on the appropriateness of the Board of Managers use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "*Réviseur d'Entreprises Agréé*" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "*Réviseur d'Entreprises Agréé*". However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Luxembourg, 24 December 2019

Christophe CRYNS
Réviseur d'Entreprises Agréé
Grant Thornton Audit & Assurance

Management Report
(All amounts are in US$ thousands, unless indicated otherwise)

The managers present their annual report and the audited consolidated financial statements of Mindgeek S.à r.l. and its subsidiaries (hereinafter the "Group") for the financial year ended December 31, 2018.

1. Important events of the year

Term loan

On May 10, 2018, the Group entered into a new financing agreement (the "New Financing Agreement") to refinance its existing borrowings under the previous Financing Agreement amounting to $313,083 including the exit fee. Under the New Financing Agreement, the Group borrowed a term loan in the aggregate principal amount of $370,000.

The New Financing Agreement is secured by all of the property and assets, tangible and intangible, owned or hereafter acquired by the Group and each of the Group's subsidiaries is a guarantor to the New Financing Agreement.

The New Financing Agreement matures on the earliest of (i) May 10, 2024, (ii) the date on which the loan shall become due and payable in accordance with the terms of the agreement, and (iii) the payment in full of all obligations.

As part of the refinancing, the Group drew a total principal amount of $370,000. The transaction costs related to the New Financing Agreement amounted to $20,615, including an original issue discount of $17,113 (representing 4.625% of the amount drawn). Such transaction costs were accounted for as a reduction of the term loan.

Borrowings under the New Financing Agreement bear interest at 9.93% per annum, payable monthly. In the event that the leverage ratio is not respected, the borrowings will bear interest at a rate of 11.93% per annum until the default is cured.

Acquisition of a Paysite assets

On December 17, 2018, the Group acquired certain assets from a Paysite. The assets acquired were primarily trademarks and domain names, customer relationships, and content libraries. The assets acquired were determined to constitute a business and accordingly, the acquisition was accounted for using the acquisition method of accounting.

The total purchase price was $1,562. The purchase price was settled through cash of $1,412 and through a balance of purchase price payable of $150 paid in March 2019.

Acquisition of Nutaku Entertainment S.à r.l.

On February 19, 2018, the Group acquired the remaining 51% of the issued share capital of Nutaku Entertainment S.à r.l. ("Nutaku" – previously DMMG S.à r.l.). The net assets acquired consisted primarily of trademarks and domain names and customer relationships. The assets acquired were determined to constitute a business and accordingly, the acquisition was accounted for using the acquisition method of accounting.

The total purchase price for this transaction was $1,500. The purchase price was settled through a balance of purchase price payable of $1,500 payable in 36 equal monthly installments beginning March 19, 2018, having a total fair value of $1,121, therefore resulting in a total fair value of $2,198 for the net assets of Nutaku.

Acquisition of other ownership interest

On June 1, 2018, the Group acquired a 49% ownership interest for a purchase price of $7,000, of which $271 was paid at closing and a note payable was issued for the remaining balance. The note is non-interest bearing and is repayable with an initial payment of $143 followed by 45 equal monthly instalments of $146 and a final payment of $23.

Investment incentive fee and priority distributions liabilities

In 2018, the Group amended the agreement whereby the subscriber is now entitled to receive an investment incentive fee of $10,000 per annum starting in 2018 and ending in 2024. In addition to the investment incentive fee, the subscriber of the class "B" shares is also entitled to receive an additional priority distribution of $10,000 in 2024.

In conjunction with the amendment of the agreement with the subscriber of the class "B" shares of RT, the Group signed an agreement with the subscriber of the class "C" shares of RT and the subscriber of the class "B" shares of RK whereby such subscriber would receive priority distributions in the amount of $1,250 per annum starting in 2018 and ending in 2024. The subscriber of the class "C" shares is also entitled to receive an additional priority distribution of $1,111 in 2024.

Lastly, in conjunction with the above, the owners of the of the Group would receive priority distributions in the amount of $2,500 per annum starting in 2018 and ending in 2024. The liability related to the payment of the priority distributions to the owners has been recorded in equity as a reduction of "Other reserves".

Vacation of office spaces

In 2018, the Group vacated one of its office spaces. As a result, a liability and a corresponding expense was recognized in "Other operating expenses" in the amount of $3,528.

Transaction with non-controlling interest

On April 6, 2018, 32,751 class "B" shares of RT were issued for a total cash consideration of $5.

This transaction resulted in the dilution of the ownership percentage of MindGeek in RT. However, as the dilution did not result in Mindgeek losing the control of RT, the transaction was accounted for as an equity transaction in the consolidated financial statements resulting in a change of $2,684 in the non-controlling interest in the net assets of RT.

Group reorganization

In December 2018, the Group completed the reorganization of its European corporate structure (the "Reorganization"). The main goals of the reorganization effort were to better align the Group's operations in fewer operating companies, simplify the Group's cash management functions, centralize website operations in Cyprus and Reduce the overall number of legal entities thereby reducing the overall costs related to statutory, legal, tax and other filings. The Reorganization add

no impact on the Group's financial results.

2. Review and development of the Group's business and financial position

The net turnover for the year ended December 31, 2018 amounts to $460,259, which represents an increase of 7.6% compared to the net turnover of $427,890 for the year ended December 31, 2017. The increase can mainly be explained by an increase in the Tubes revenue resulting from continuous growth of products and optimization of revenues sources, an increase in Games revenues resulting from a continuous growth of the platform and its customer base, offset by a decrease in Paysites revenues resulting from lower conversion of advertising expenditure to subscription revenues.

The net income before tax for the financial year ended December 31, 2018 is a profit amounting to $38,331, compared to a profit before tax of $9,681 for the year ended December 31, 2017. Excluding the non-recurring items, the impairment of non-financial assets, and the change in fair value of the put option, the net result before tax of the year would have been $47,744, representing an increase of $12,891 compared to the 2017 net result before tax adjusted for non-recurring items. The increase is attributed to the same reasons that were provided for the increase in net turnover. The increase in operating profit was due to a decrease in finance costs, mainly resulting from the lower accretion interest and reduced interest expenses on borrowings as a result of the new financing agreement.

The 2018 non-recurring items include a $593 gain on business combination, a one-time charge of $3,528 for the vacation of office spaces and non-recurring expenses related with the Group reorganization of $3,528. The 2017 non-recurring items include a $3,004 gain related to the Termination Agreement and restructuring expenses of $3,126.

As at December 31, 2018, the Group does not hold any of its own shares.

3. Principal risks and uncertainties

The Group is exposed to various risks in relation to financial instruments.

The Group's risk management is coordinated in close cooperation with group management and focuses on actively securing the short to medium term cash flows by minimizing exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described in Note 23 of the consolidated financial statements.

4. Legal risks

Any legal risk is properly addressed by the legal department of the Group to ensure compliance with all regulations in force.

In the normal course of operations, the Group is contingently liable with respect to litigations and claims that arise from time to time. In our opinion, any liability, which may arise from such contingencies, would not have a material adverse effect on the Group's consolidated financial statements

5. Corporate Governance

Strong corporate governance is an integral part of the Group's core values, supporting the Group's vision of moving towards a sustainable future.

Management of the Group works with senior leaders across the Group to elevate the importance of core values throughout the Group by promoting and fostering a corporate culture of the highest ethical standards, internal controls, and compliance with laws.

Important events since the balance sheet date

Term loan

Subsequent to year end, the Group amended the new financing agreement to provide an additional term loan with identical terms as the original loan in the amount of $25,000. The additional loan was used to partially fund an acquisition of assets closed on the same date.

Acquisition of assets that operate in the adult industry

Subsequent to year end, the Group acquired certain assets that operate in the adult industry. The assets acquired were primarily trademarks, domain names, customer relationship and non-compete agreements. The assets acquired were determined to constitute a business and accordingly, the acquisition will be accounted for using the acquisition method of accounting.

The total purchase price was $30,000. The purchase price was settled in a $29,750 cash payment at closing. A $250 security deposit was paid in February 2019 upon execution of a letter of intent related to the acquisition which was also applied to the purchase price.

The purchase price allocation ("PPA") for the Acquisition will be completed in conjunction with the finalization of the 2019 financial statement and allocation of the purchase price between the acquired assets will be reflected in the 2019 financial statements.

Production agreement termination

Subsequent to year end, the Company terminated an existing production agreement with a major producer.
As a result of the termination without cause, the Group agreed to pay the producer an amount equal to $3,481. This amount was paid in full on the termination date.

Luxembourg, December 20, 2019
The Board of Managers

Andreas Andreou
Manager Class A

Anis Baba
Manager Class A

MindGeek S.à r.l.
Consolidated Statement of Financial Position

December 31, 2018
(Amounts in thousands of U.S. dollars)

	Notes	2018	2017
		$	$
ASSETS			
Current			
Cash		**32,097**	7,410
Trade and other receivables	5	**42,161**	36,250
Inventories		**1,536**	1,433
Current tax assets		**1,646**	1,926
Prepaid expenses		**7,322**	4,477
Security deposits and other assets	6	**2,799**	1,515
Current assets		**87,561**	53,011
Non-current			
Security deposits and other assets	6	**7,579**	3,028
Property and equipment	7	**8,106**	10,264
Goodwill	8	**70,674**	70,091
Other intangible assets	9	**351,268**	376,073
Deferred tax assets	18	**2,817**	2,817
Non-current assets		**440,444**	462,273
Total assets		**528,005**	515,284
LIABILITIES AND EQUITY			
Liabilities			
Current			
Trade and other payables	10	**34,400**	34,193
Deferred revenues		**35,944**	28,192
Current tax liabilities		**286**	4,525
Licensing liabilities	13	**2,752**	2,632
Borrowings	14	**43,495**	327,041
Notes payable	11	**4,427**	1,596
Other liabilities	15	**5,136**	7,052
Current liabilities		**126,440**	405,231
Non-current			
Deferred revenues		**9,830**	9,620
Licensing liabilities	13	**-**	2,752
Borrowings	14	**281,063**	57
Notes payable	11	**48,328**	47,218
Other liabilities	15	**81,558**	18,975
Deferred tax liabilities	18	**17,164**	9,826
Non-current liabilities		**437,943**	88,448
Total liabilities		**564,383**	493,679
Equity attributable to the owners of the Group			
Share capital	16	**42**	42
Share premium	16	**100**	100
Capital contributions	16	**38,583**	38,583
Other components of equity	16	**34**	79
Deficit		**(39,989)**	(57,594)
Equity attributable to the owners of the Group		**(12,843)**	(18,790)
Non-controlling interest		**(23,535)**	40,395
Total equity		**(36,378)**	21,605
Total liabilities and equity		**528,005**	515,284

The accompanying notes are an integral part of the consolidated financial statements.

MindGeek S.à r.l.
Consolidated Income Statement
Year ended December 31, 2018
(Amounts in thousands of U.S. dollars)

	Notes	2018	2017
		$	$
Revenues		**460,259**	427,890
Expenses			
Website operating expenses		**147,118**	122,617
Employee salaries and benefits expense	19.1	**72,766**	67,233
Other operating expenses		**48,931**	38,407
		268,815	228,257
Operating profit before depreciation, amortization, impairment and loss on disposal of non-financial assets		**191,444**	199,633
Depreciation, amortization and loss on disposal of non-financial assets	19.2	**62,431**	68,138
Impairment of non-financial assets	8, 9	**949**	19,750
Operating profit		**128,064**	111,745
Change in fair value of put option liability	15	**2,400**	5,300
Finance costs	19.3	**87,333**	96,764
Profit before tax		**38,331**	9,681
Tax expense	18	**16,117**	1,794
Profit for the year		**22,214**	7,887
Profit for the year attributable to:			
Non-controlling interest		**(3,973)**	6,664
Owners of the Group		**26,187**	1,223
		22,214	7,887

The accompanying notes are an integral part of the consolidated financial statements.

MindGeek S.à r.l.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2018
(Amounts in thousands of U.S. dollars)

	2018	2017
	$	$
Profit for the year	**22,214**	7,887
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(49)**	1,306
Other comprehensive income (loss) for the year	**(49)**	1,306
Total comprehensive income for the year	**22,165**	9,193
Total comprehensive income for the year attributable to:		
Non-controlling interest	**(3,977)**	7,238
Owners of the Group	**26,142**	1,955
	22,165	9,193

The accompanying notes are an integral part of the consolidated financial statements.

MindGeek S.à r.l.
Consolidated Statement of Changes in Equity
Year ended December 31, 2018
(Amounts in thousands of U.S. dollars)

2018

	Share capital	Share premium	Capital contributions	Other reserves	Other components of equity	Deficit	Equity attributable to the owners of the Group	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$	$	$
Balance, beginning of year	42	100	38,583	-	79	(57,594)	(18,790)	40,395	21,605
Profit for the year	-	-	-	-	-	26,187	26,187	(3,973)	22,214
Other comprehensive income for the year	-	-	-	-	(45)	-	(45)	(4)	(49)
Dividends paid	-	-	-	-	-	(5,898)	(5,898)	(12,852)	(18,750)
Change in non-controlling interest (Note 16.3)	-	-	-	-	-	(2,684)	(2,684)	2,689	5
Change in other liabilities (Note 15)	-	-	-	(11,613)	-	-	(11,613)	(49,790)	(61,403)
Transactions with owners and non-controlling interests	-	-	-	(11,613)	(45)	(8,582)	(20,240)	(59,957)	(80,197)
Balance at December 31, 2017	**42**	**100**	**38,583**	**(11,613)**	**34**	**(39,989)**	**(12,843)**	**(23,535)**	**(36,378)**

2017

	Share Capital	Share premium	Capital contributions	Other reserves	Other components of equity	Deficit	Equity attributable to the owners of the Group	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$	$	$
Balance, beginning of year	42	100	38,583	-	(495)	(57,520)	(19,290)	46,752	27,462
Profit for the year	-	-	-	-	-	6,664	6,664	1,223	7,887
Other comprehensive income for the year	-	-	-	-	574	-	574	732	1,306
Dividends paid	-	-	-	-	-	(6,738)	(6,738)	(8,312)	(15,050)
Transactions with owners and non-controlling interests	-	-	-	-	574	(6,738)	(6,164)	(7,580)	(13,744)
Balance at December 31, 2017	42	100	38,583	-	79	(57,594)	(18,790)	40,395	21,605

The accompanying notes are an integral part of the consolidated financial statements.

MindGeek S.à r.l.

Consolidated Statement of Cash Flows

Year ended December 31, 2018
(Amounts in thousands of U.S. dollars)

	Notes	2018	2017
		$	$
OPERATING ACTIVITIES			
Profit before tax		**38,331**	9,681
Security deposits		**837**	618
Other finance costs		**39**	(15)
Adjustments			
Depreciation, amortization and loss on disposal of non-financial assets	19.2	**62,431**	68,138
Impairment of non-financial assets		**949**	19,750
Change in fair value of put option liability	15	**2,400**	5,300
Finance costs	19.3	**87,333**	96,764
Gain on settlement of termination agreement		**–**	(3,004)
Gain on business combination	4	**(593)**	–
Loss on other liabilities	15	**3,528**	–
Loss on settlement of a liability		**850**	1,191
Share of profit from equity accounted investment		**(1,729)**	(532)
Net changes in working capital items	20	**(2,952)**	11,903
Net payments in termination agreement		**1,400**	(1,461)
Taxes paid		**(12,969)**	(9,041)
Net cash from operating activities		**179,855**	199,292
INVESTING ACTIVITIES			
Business combinations, net of cash	4	**(1,369)**	–
Payments made on notes payable related to business combinations and other investments	11	**(20,241)**	(21,280)
Amount received for note payable	11	**–**	1,900
Purchase of property and equipment	7	**(2,712)**	(1,383)
Distributions from other ownership interest		**872**	
Other intangible assets	9	**(30,771)**	(33,087)
Other current and non-current assets		**(26)**	1,964
Net cash used in investing activities		**(54,247)**	(51,886)
FINANCING ACTIVITIES			
New term loan proceeds	14	**370,000**	–
Refinancing fees	14	**(20,615)**	–
Term loan reimbursement	14	**(313,083)**	(69,923)
Schedules repayments	14	**(58,000)**	–
Other loans	14	**(140)**	(331)
Other liabilities	15	**(14,637)**	(7,500)
Payment of licensing liabilities	13	**(3,690)**	(3,690)
Interest and other finance costs paid	19.3	**(41,949)**	(56,487)
Transaction with non-controlling interest		**5**	–
Dividends paid		**(18,750)**	(15,050)
Net cash used in financing activities		**(100,859)**	(152,981)
Net change in cash		**24,749**	(5,575)
Exchange differences on cash		**(62)**	(25)
Cash, beginning of year		**7,410**	13,010
Cash, end of year		**32,097**	7,410

The accompanying notes are an integral part of the consolidated financial statements.

1. NATURE OF OPERATIONS AND GENERAL INFORMATION

MindGeek S.à r.l. (hereinafter "MindGeek" is a private limited liability company incorporated under the Commercial Companies Laws of Luxembourg and domiciled in Luxembourg. The address of the entity's registered head office is 32, boulevard Royal, Luxembourg L-2449. The consolidated financial statements of MindGeek as at and for the year ended December 31, 2018 comprise MindGeek and its subsidiaries (together referred to as the "Group"). MindGeek is the Group's ultimate parent company. Note 25 lists the Group's subsidiaries and their country of incorporation.

The Group is an international information technology firm specializing in highly trafficked websites. The Group creates, develops and manages recognized mainstream and adult entertainment brands. It owns and licenses the trademarks and domain names used for websites.

The consolidated financial statements of the Group as at and for the year ended December 31, 2018 were approved and authorized for issue by the Board of Managers of the Group on December 20, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

2.2 Basis of preparation

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarized below.

The consolidated financial statements are presented in United States of America dollars (hereinafter "U.S. dollars") and all tabular amounts are rounded and expressed to the nearest thousand, except where otherwise indicated.

2.3 Basis of consolidation

The Group's financial statements consolidate those of MindGeek and all of its subsidiaries. Subsidiaries are all entities over which the Group has control. A parent controls a subsidiary if it is exposed, or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Group normally obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of December 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of consolidation (continued)

All transactions and balances between Group companies are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interest, where applicable, presented as part of equity, represents the portion of a subsidiary's profit or loss and net assets that are not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the Group and the non-controlling interest based on their respective ownership interests. The Group recognizes any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

2.4 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Group to obtain control of a subsidiary in a business combination is measured at fair value and is calculated as the sum of the acquisition-date fair values of assets transferred to the Group, the liabilities incurred by the Group and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred and included in "Other operating expenses".

The Group recognizes identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (continued)

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with *International Financial Reporting Standards ("IFRS") 9 Financial Instruments: Recognition and Measurement* or *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of identifiable net assets exceeds the sum calculated above, the excess amount (gain on a bargain purchase) is recognized in profit or loss immediately.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.5 Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealized gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

Functional and presentation currency
The consolidated financial statements are presented in U.S. dollars, which is also the functional currency of MindGeek.

Foreign currency transactions and balances

Foreign currency transactions are translated in the functional currency of the respective Group entity, using the exchange rates prevailing at the date of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated at period-end exchange rates. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the Group's consolidated financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the U.S. dollar are translated into U.S. dollars upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into U.S. dollars at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into U.S. dollars at the closing rate. Revenues and expenses have been translated into U.S. dollars at the average rate over the reporting period. All exchange differences are recognized in other comprehensive income and recognized in the "Currency translation reserve" and presented in "Other components of equity". On disposal of a foreign operation, the related cumulative translation differences recognized in other comprehensive income are reclassified to profit or loss and are recognized as part of the gain or loss on disposal and included in "Other operating expenses".

2.7 Financial instruments

Recognition and de-recognition

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.7 Financial instruments (continued)

Recognition and de-recognition (continued)

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is de-recognized when it is extinguished, discharged, cancelled or when it has expired.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorized as FVTPL or FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within "Finance costs" except for impairment of trade receivables which is presented within other "Operating expenses".

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.7 Financial instruments (continued)

Subsequent measurement of financial assets (continued)

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash, trade and most other receivables as well as certain other assets fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, they have been grouped based on the days past due. Refer to Note 23.2 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and subsequent measurement of financial liabilities

For the purpose of subsequent measurement, financial liabilities other than those designated and effective as hedging instruments are classified into one of the two following categories upon initial recognition:

- financial liabilities measured at amortized cost;
- financial liabilities at fair value through profit or loss.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.7 Financial instruments (continued)

Classification and subsequent measurement of financial liabilities (continued)

Financial liabilities measured at amortized cost

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Group's financial liabilities include trade and other payables (excluding non-financial liabilities payable), licensing liabilities, borrowings, notes payable related to business combinations, note payable to a shareholder, investment incentive fee liability, and the other liabilities. These financial liabilities are all financial liabilities measured at amortized cost.

All interest-related charges are reported in profit or loss and are included within "Finance costs".

Financial liabilities at fair value through profit or loss

The put option liability is carried at fair value and is part of this category of financial liabilities. Subsequent changes in fair value are recognized in profit or loss.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all purchase, conversion and other costs to bring the inventories to their present location and conditions. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.9 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. They are depreciated over their estimated useful lives less their estimated residual value according to the straight-line method. The periods generally applicable are as follows:

	Periods
Furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	Remaining term of the lease

The residual values, depreciation methods and useful lives of each asset are reviewed, at least, at each financial year-end or earlier, as required. Property and equipment are subject to impairment testing as described in Note 2.13.

Depreciation is included within "Depreciation, amortization and loss on disposal of non-financial assets" in profit or loss, while impairment losses (or reversals of impairment, if any) are included within "Impairment of non-financial assets" in profit or loss.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets. They are included in profit or loss when the item is derecognized within "Depreciation, amortization and loss on disposal of non-financial assets".

2.10 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. See Note 2.4 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 2.13 for a description of impairment testing procedures.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.11 Other intangible assets

The Group's other intangible assets comprise trademarks and domain names, customer relationships, libraries, technology and acquired software licenses.

Trademarks and domain names

Trademarks are marketing-related intangible assets, namely assets that are primarily used in the marketing and promotion of products or services. When registered, a trademark meets the recognition criteria of *IFRS 3: Business Combinations* as it is an asset that stems from a legal right. An internet domain name is a unique alphanumeric name that is used to identify a particular numeric internet site. Domain names are registered and, accordingly, are recognized as intangible assets apart from goodwill as they meet the contractual-legal criterion. For internet-based businesses, trademarks and domain names are virtually inseparable.

Separately acquired trademarks and domain names are presented at historical cost. Trademarks and domain names acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and domain names have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses.

Customer relationships

Customer relationships include customer lists, customer contracts and the related customer relationships and non-contractual customer relationships.

Customer relationships are acquired in a business combination and are recognized at fair value at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses.

Content libraries

Content libraries are considered as artistic-related intangible assets. Content libraries include acquired libraries, acquired rights to libraries and the rights to use libraries under licensing agreements.

Acquired libraries and acquired library rights represent a group or collection of individual films that have predominantly been acquired for exploitation on both free and subscription-based websites. Acquired libraries also include the rights to use such libraries under licensing agreements.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.11 Other intangible assets (continued)

Content libraries (continued)

Where the libraries and library rights are acquired separately from a business combination, the libraries are capitalized at cost, including salaries directly attributable to the preparation of the content libraries for their intended use in accordance with IAS 38: Intangible Assets. Where the library rights are acquired under licensing agreements, the capitalized cost represents the present value of the estimated cash flows payable under the licensing agreement.

Where the libraries or library rights are acquired as part of a business combination, the libraries are recognized at fair value at the acquisition date. In determining fair value, management takes into account projected net cash flows of the assets and a determination of the discounted value of those cash flows. The cash flows are discounted at rates that take into account the time value of money and the risk profile of the asset's cash flows. Where available, management takes into account third-party valuations of the cash flows and if third-party valuations are not available, they utilize a methodology similar to those of third-party valuation companies.

Content libraries are amortized over the expected useful life of the asset, taking into account the expected timing of revenue generation over the expected useful life of the asset. They are carried at cost less accumulated amortization and any accumulated impairment losses.

Technology

Technology acquired in a business combination is recognized at fair value at the acquisition date.

The technology has a finite useful life and is carried at cost less accumulated amortization and any accumulated impairment losses.

Software licenses

Software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Software licenses have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses.

Costs associated with maintaining computer software, such as expenditures relating to patches and other minor updates as well as their installation, are expensed as incurred.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.11 Other intangible assets (continued)

Useful lives

The other intangible assets are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as they have finite useful lives. The periods generally applicable are as follows:

	Periods
Trademarks and domain names	20 years
Customer relationships	10 years
Content libraries	3 to 5 years
Technology	3 years
Software licenses	3 years

Any capitalized internally produced libraries that are not yet complete are not amortized but are subject to impairment testing as described in Note 2.13.

The amortization periods and the amortization methods are reviewed at least at each financial year-end. The residual values of these assets are assumed to be zero. They are subject to impairment testing as described in Note 2.13.

Amortization is included within "Depreciation, amortization and loss on disposal of non-financial assets" in profit or loss, while impairment losses (or reversals of impairment, if any) are included within "Impairment of non-financial assets".

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset. They are included in profit or loss when the asset is derecognized within "Depreciation, amortization and loss on disposal of non-financial assets".

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.12 Leased assets

Leases are classified as either operating leases or finance leases based on the substance of the transaction at the inception of the lease.

Finance leases are leases where the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards incidental to ownership of the leased asset.

The assets leased through finance leases are initially recognized at the fair value of the leased asset at the inception of the lease or, if lower, at the present value of the minimum lease payments plus incidental payments, if any. The corresponding liability to the Group is included in the consolidated statement of financial position under “Other Liabilities”.

Depreciation methods and useful lives for assets held under finance leases correspond to those applied to comparable assets which are legally owned by the Group.

Lease payments are apportioned between finance expenses and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss under "Finance costs". Contingent rentals are recognized as expenses in the periods in which they are incurred.

All other leases are classified as operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

2.13 Impairment testing of goodwill, other intangible assets and property and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

For the purposes of impairment testing, goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from synergies of the related business combination. Each unit or group of units represent the lowest level within the Group at which management monitors goodwill.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.13 Impairment testing of goodwill, other intangible assets and property and equipment (continued)

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. To determine the value in use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are based on the Group's latest approved budgets, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements, and the estimated growth rates for subsequent years. Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles such as market and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.14 Research and development costs and investment tax credits

Research costs as well as development costs are expensed as incurred, however, development costs are capitalized when they respect the capitalization criteria.

Investment tax credits are accounted for as a reduction of the related research and development costs. Credits are accrued in the year in which the research and development costs are incurred, provided that the Group is reasonably certain that the credits will be received. The investment tax credits must be examined and approved by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.15 Equity

Share capital

Share capital represents the nominal value of shares that have been issued.

Share premium

Share premium includes any premiums received on the issuance of share capital. Any transaction costs associated with the issuance of shares are deducted from share premium, net of any related income tax benefits.

Capital contributions

Capital contributions represent MindGeek's share of the net assets and cash invested by the non-controlling interests in a subsidiary.

Other components of equity

Other components of equity include the currency translation reserve.

The currency translation reserve comprises all foreign currency translation differences arising from the translation of the financial statements of the Group's foreign entities into U.S. dollars (see Note 2.6).

Retained earnings (deficit)

Retained earnings (deficit) include all current and prior periods' retained profits and losses.

All transactions with owners of the Group are recorded separately within equity.

2.16 Revenue Recognition

Revenue is comprised primarily of revenue from advertising, membership subscriptions, multiple system operators ("MSOs") and the sale of digital currency.

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, net of sales taxes, refunds, rebates and trade discounts. In obtaining contracts, the Group may incur incremental costs such as commissions. As the amortization period of these costs, if capitalized, would be less than one year, the Group makes use of the practical expedient in IFRS 15.94 and expenses them as they incur.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.16 Revenue Recognition (continued)

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Advertising revenue

The Group operates certain websites where revenues are generated from advertisements. Advertising revenues are recognized when advertisements are viewed online.

Amounts billed or received in accordance with advertisement agreements that do not satisfy revenue recognition criteria at the reporting date are recorded as deferred revenue.

Membership subscription revenue

The Group operates certain websites where revenues are generated through membership subscriptions. The client selects a time frame period for its membership subscription which could generally vary from one day to twelve months. Membership subscription revenue is recognized on a straight-line basis over the term of the membership subscription.

Amounts billed or received in accordance with membership subscriptions that do not satisfy revenue recognition criteria at the reporting date are recorded as deferred revenue.

Multiple system operators revenue

The Group operates certain television channels where revenues are generated through MSOs. Revenue from MSOs is recognized monthly as a percentage of the revenue earned by the MSO for the airing of the Group's content.

Sale of digital currency revenue

The Group operates certain websites that generate revenue through the sale of digital currency (coins) that are used to view content, as well as to play and upgrade games available on the Group's websites. Revenue from the sale of coins is recognized as the coins are used by customers. Amounts that do not satisfy the revenue recognition criteria at the reporting date are recorded as deferred revenue.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.17 Taxes Tax expense

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity. Tax expense includes withholding taxes when they are not recoverable.

Current income taxes

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods, that are receivable or unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax assets and liabilities are offset only when the Group has a right and the intention to offset current tax assets and liabilities from the same taxation authority.

Deferred income taxes

Deferred income taxes are calculated using the liability method and are recognized for all temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, a deferred tax liability is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized tothe extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilized against future taxable income. This is assessed based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.17 Taxes (continued)

Deferred income taxes (continued)

Deferred tax assets and liabilities are offset only when the Group has a right and the intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Sales taxes

Revenues, expenses, assets and liabilities are recognized net of the amount of sales taxes. The net amount of sales taxes recoverable from, or payable to, the tax authorities is included as part of trade and other receivables or trade and other payables in the consolidated statement of financial position.

2.18 Employee benefits

Short-term employee benefits, including vacations, are current liabilities included under trade and other payables, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Group contributes to state plans for employees that are considered to be defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions and has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions. Contributions to the plans are recognized as an expense in the period that relevant employee services are rendered.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.19 Provisions, contingent liabilities and contingent assets

Provisions for legal disputes, onerous contracts or other claims are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

2.20 Significant management judgement in applying accounting policies

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements. Critical estimation uncertainties are described in Note 2.21.

Deferred tax assets

The assessment of the probability of future taxable income in which the underlying tax attributes giving rise to deferred tax assets can be utilized is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on specific facts and circumstances.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.21 Estimation uncertainty

When preparing the consolidated financial statements, management undertakes a number of estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Impairment

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (see Note 2.13). In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the Group. The carrying amounts are disclosed in Notes 7 and 9. The estimated useful lives of certain assets may vary due to developments in technology for computer equipment and software licenses.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

2.21 Estimation uncertainty (continued)

Fair value of financial instruments

Management uses valuation techniques in determining the fair value of financial instruments where active market quotes are not available. Details of the assumptions used are given in Note 17. In applying the valuation techniques, management makes maximum use of market observable inputs and uses estimates and assumptions that are, as far as possible, consistent with data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

3. *NEW ACCOUNTING STANDARDS*

3.1 New and revised standards that are effective for annual periods beginning on or after January 1, 2018

IFRS 15: Revenue from Contracts with Customers replaces *IAS 18: Revenue*, *IAS 11: Construction Contracts* and some revenue related interpretations. IFRS 15 established a new control-based revenue recognition model, changed the basis for deciding when revenue is recognized at a point in time or over time, provided new and more detailed guidance on specific topics and expanded and improved disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and the Group adopted it as of this date. Management retroactively applied this standard with restatement of comparative periods. There was no material impact to the Group's financial statements as a result of adopting IFRS 15. The Group 's accounting policy with respect to revenue recognition and additional disclosure relative to IFRS 15 are explained in the accounting policies above.

3. *NEW ACCOUNTING STANDARDS (Continued)*

3.1 New and revised standards that are effective for annual periods beginning on or after January 1, 2018 (continued)

The Group has adopted IFRS 9 with date of initial application of January 1, 2018, and applied retroactively with restatement of comparative periods. IFRS 9 replaced *IAS 39: Financial Instruments: Recognition and Measurement* and includes a revised model for the classification and measurement of financial assets and liabilities, a forward-looking 'expected loss' impairment model and a reformed approach to hedge-accounting.

There was no material impact to the Group's consolidated financial statements as a result of adopting IFRS 9, with the exception of financial assets that were classified as loans and receivables that are now classified in the amortized cost category and applied retroactively with restatement of comparative periods.

In the current year, the Group has applied a number of other amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, certain new standards and amendments to existing standards have been published by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's consolidated financial statements.

3. *NEW ACCOUNTING STANDARDS (Continued)*

3.2 Standards, amendments and interpretations to existing standards that are notyet effective and have not been adopted early by the Group (continued)

IFRS 16 Leases

In January 2016, the IASB published *IFRS 16: Leases*, which will replace the existing standard *IAS 17: Leases* and related interpretations. This IFRS eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances.

The adoption of this new standard will require the Group to change the method used for accounting for operating leases, but management is continuing to assess the impact of this new standard on its consolidated financial statements.

4. *BUSINESS COMBINATIONS*

Acquisition of a Paysite assets

On December 17, 2018, the Group acquired certain assets from a Paysite. The assets acquired were primarily trademarks and domain names, customer relationships, and content libraries. The assets acquired were determined to constitute a business and accordingly, the acquisition was accounted for using the acquisition method of accounting.

The total purchase price was $1,562,000. The purchase price was settled through cash of $1,412,000 and through a balance of purchase price payable of $150,000 paid in March 2019.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

4. *BUSINESS COMBINATIONS (Continued)*

Acquisition of a Paysite assets (continued)

	$
Fair value of the consideration transferred	
Cash	1,412
Fair value of balance of purchase price (Note 11)	150
Total consideration transferred	1,562

	$
Identifiable net assets acquired	
Trademarks and domain names	444
Customer relationships	44
Acquired libraries	535
Total identifiable net assets	1,023
Goodwill on acquisition (Note 8)	539
	1,562

The transaction involved the acquisition of websites that were integrated into the Group's existing Paysites business unit in order to enhance the market position of the Group and increase expected synergies of the business. This explains the goodwill arising from the transaction. The acquired goodwill was allocated to the Paysites cash-generating unit. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

Acquisition related costs amounting to $10,000 were not included as part of the consideration transferred and were recognized as an expense in the consolidated income statement.

From the date of acquisition to December 31, 2018, this business combination contributed $40,000 of revenues and $8,000 of profit before tax.

Acquisition of Nutaku Entertainment S.à r.l.

On February 19, 2018, the Group acquired the remaining 51% of the issued share capital of Nutaku Entertainment S.à r.l. ("Nutaku" – previously DMMG S.à r.l.). The net assets acquired consisted primarily of trademarks and domain names and customer relationships. The assets acquired were determined to constitute a business and accordingly, the acquisition was accounted for using the acquisition method of accounting.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

4. BUSINESS COMBINATIONS (Continued)

Acquisition of Nutaku Entertainment S.à r.l. (continued)

The total purchase price for this transaction was $1,500,000. The purchase price was settled through a balance of purchase price payable of $1,500,000 payable in 36 equal monthly installments beginning March 19, 2018, having a total fair value of $1,121,000, therefore resulting in a total fair value of $2,198,000 for the net assets of Nutaku.

As a result of the transaction a gain of $593,000 was recognized in profit, representing the difference between the carrying value of the previously held equity interest in Nutaku and the fair value on the acquisition date.

	$
Implied fair value of the consideration transferred	
Fair value of balance of purchase price (Note 11)	1,121
Implied fair value of 49% shares already owned	1,077
	2,198

	$
Identifiable net assets acquired	
Cash	43
Accounts receivable	2,934
Prepaid expenses	48
Trademarks and domain names	1,100
Customer relationships	460
Accounts payable	(57)
Other current liabilities	(1,018)
Income taxes payable	(14)
Deferred revenue	(221)
Other loan	(1,121)
Total identifiable net assets	2,154
Goodwill on acquisition	44
	2,198

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

4. BUSINESS COMBINATIONS (Continued)

Acquisition of Nutaku Entertainment S.à r.l. (continued)

The Nutaku transaction involved the acquisition of websites that were integrated into the Group's Games and Applications business unit. The goodwill is attributable to the profitability of the acquired business. The acquired goodwill was allocated to the Games and Applications cash-generating unit. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

Acquisition related costs amounting to $15,000 were not included as part of the consideration transferred and were recognized as an expense in the consolidated income statement.

From the date of acquisition to December 31, 2018, this business combination contributed $23,579,000 of revenues and $2,030,000 of profit before tax.

5. TRADE AND OTHER RECEIVABLES

	2018	2017
	$	$
Trade accounts receivable, gross	**33,584**	29,539
Allowance for credit losses	**(4,172)**	(3,005)
Trade accounts receivable	**29,412**	26,534
Transaction payment processors' reserves	**8,102**	8,035
Other	**2,633**	-
Financial assets	**40,147**	34,569
Sales taxes recoverable and other non-financial assets	**2,014**	1,681
Trade and other receivables	**42,161**	36,250

Note 23 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

6. *SECURITY DEPOSITS AND OTHER ASSETS*

	2018	2017
	$	$
Security deposits	**1,445**	1,537
Investment in other ownership interest	**6,166**	-
Other	**2,767**	3,006
Balance at December 31	**10,378**	4,543
Current	**2,799**	1,515
Non-current	**1,579**	3,028
	10,378	4,543

7. *PROPERTY AND EQUIPMENT*

Details of the Group's property and equipment and their carrying amounts are as follows:

				2018
	Furniture and equipment	**Computer equipment**	**Leasehold improvements**	**Total**
	$	**$**	**$**	**$**
Gross carrying amount				
Balance, beginning of year	**4,408**	**12,979**	**13,197**	**30,584**
Additions, separately acquired	**160**	**1,875**	**677**	**2,712**
Balance at December 31, 2018	**4,568**	**14,854**	**13,874**	**33,296**
Depreciation and impairment				
Balance, beginning of year	**3,376**	**10,675**	**6,269**	**20,320**
Depreciation	**236**	**2,272**	**1,413**	**3,921**
Impairment	**–**	**–**	**949**	**949**
Balance at December 31, 2018	**3,612**	**12,947**	**8,631**	**25,190**
Carrying amount	**956**	**1,907**	**5,243**	**8,106**

All property and equipment have been pledged as security for the Group's borrowings under the New Financing Agreement.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

7. *PROPERTY AND EQUIPMENT (Continued)*

				2017
	Furniture and equipment	Computer equipment	Leasehold improvements	Total
	$	$	$	$
Gross carrying amount				
Balance, beginning of year	4,555	13,009	12,754	30,318
Additions, separately acquired	128	728	527	1,383
Disposals	(275)	(758)	(84)	(1,117)
Balance at December 31, 2017	4,408	12,979	13,197	30,584
Depreciation and impairment				
Balance, beginning of year	3,074	8,757	4,847	16,678
Depreciation	566	2,659	1,491	4,716
Disposals	(264)	(741)	(69)	(1,074)
Balance at December 31, 2017	3,376	10,675	6,269	20,320
Carrying amount	1,032	2,304	6,928	10,264

8. *GOODWILL*

The movements in the net carrying amount of goodwill for 2018 are as follows:

					2018
	Tubes	**Paysites**	**Reality**	**Games and Applications**	**Total**
	$	**$**	**$**	**$**	**$**
Gross carrying amount					
Balance, beginning of year	**46,054**	**22,465**	**1,572**	**–**	**70,091**
Additions	**–**	**539**	**–**	**44**	**583**
Balance at December 31, 2018	**46,054**	**23,004**	**1,572**	**44**	**70,674**
Accumulated impairment					
Balance, beginning of year	–	–	–	–	–
Impairments	–	–	–	–	–
Balance at December 31, 2018	–	–	–	–	–
Goodwill allocation and carrying amount at December 31, 2018	**46,054**	**23,004**	**1,572**	**44**	**70,674**

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

8. *GOODWILL (Continued)*

The movements in the net carrying amount of goodwill for 2017 are as follows:

				2017
	Tubes	Paysites	Reality	Total
	$	$	$	$
Gross carrying amount				
Balance, beginning of year	46,054	22,465	1,572	70,091
Additions	–	–	–	–
Balance at December 31, 2018	46,054	23,465	1,572	70,091
Accumulated impairment				
Balance, beginning of year	–	–	–	–
Impairments	–	–	–	–
Balance at December 31, 2018	–	–	–	–
Goodwill allocation and carrying amount at December 31, 2018	46,054	23,465	1,572	70,091

Impairment testing

General

For the purpose of annual impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the business combinations in which the goodwill arises.

The recoverable amounts of the cash-generating units were determined based on value-in-use calculations, covering a detailed five-year forecast, followed by an extrapolation of expected cash flows using the growth rates determined by management. The growth rates reflect the long-term average growth rates for the services of the cash-generating units. The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each cash-generating unit.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

8. GOODWILL (Continued)

Impairment testing (continued)

General (continued)

The key assumptions used for value-in-use calculations are as follows:

	2018		2017	
	Growth rates	**Discount rates**	**Growth rates**	**Discount rates**
Tubes	**2%**	**20%**	2%	20%
Paysites	**2%**	**19%**	2%	19%
Television	**2%**	**10%**	2%	10%
Reality	**2%**	**26%**	2%	26%
Games and Applications	**10%**	**26%**	–	–

Tubes

Management's key assumptions for the Tubes cash-generating unit include stable profit margins, which have been determined based on past experience in this market, as well as future trends and modest growth in revenues. The Group's management believes that these are the best available inputs for forecasting this mature market.

Paysites

Management expects normal growth in revenues and stable profit margins for this cash-generating unit. Such assumptions have been determined based on past experience in this market as well as the expected growth trend in this sector. The Group's management believes that this is the best available input for forecasting in this market.

Reality

The Reality cash-generating unit has stable profit margins, for which management expects modest growth in revenues. Management believes that these are the best available inputs for forecasting these markets.

Games and Applications

Due to significant resources being allocated to grow the Group's market share, management expects strong growth in revenues and increasing profit margins for this cash-generating unit.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

8. *GOODWILL (Continued)*

Impairment losses

In 2017, management assessed that there were indicators of impairment of certain assets. These assets do not contribute significantly to the total cash flows of the Group. The cash flow forecasts and projections for these assets were adjusted as management expected lower profitability related to these assets in comparison to 2016 cash flow forecasts and projections. The recoverable amounts of each of the assets are the values in use.

In 2017, impairment testing, taking into account these revised cash flows, resulted in a reduction of trademarks and domain names, customer relationships, and content libraries as follows:

Assets	Tubes	Paysites	Television and Playboy Digital	Corporate Services	Total
Trademarks and domain names	–	–	1,430	11,648	13,078
Customer relationships	740	–	–	–	740
Content libraries	–	5,724	208	–	5,932
	740	5,724	1,638	11,648	19,750

Apart from the considerations described in determining the value-in-use of the cash-generating units described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates and that would cause the carrying value of the units to exceed its recoverable amount.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

9. *OTHER INTANGIBLE ASSETS*

Details of the Group's other intangible assets and their carrying amounts are as follows:

						2018
	Trademarks and domain names	Customer relationships	Content libraries	Technology	Software licenses	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance, beginning of year	391,854	78,813	197,626	934	4,501	673,728
Additions, business combinations	1,544	504	535	–	–	2,583
Additions	–	–	30,064	–	929	30,993
Balance at December 31, 2018	393,398	79,317	228,225	934	5,430	707,304
Amortization and impairment						
Balance, beginning of year	101,161	40,138	152,509	934	2,913	297,655
Amortization	19,411	7,418	30,541	–	1,011	58,381
Balance at December 31, 2018	120,572	47,556	183,050	934	3,924	356,036
Carrying amount at December 31, 2018	272,826	31,761	45,175	–	1,506	351,268

All of the other intangible assets have been pledged as security for the borrowings of the Group under the New Financing Agreement.

No significant internally produced libraries were in production as at the reporting date.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

9. *OTHER INTANGIBLE ASSETS (Continued)*

						2017
	Trademarks and domain names	Customer relationships	Content libraries	Technology	Software licenses	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance, beginning of year	391,830	78,813	164,909	934	3,165	639,651
Additions	24	–	32,717	–	1,336	34,077
Balance at December 31, 2017	391,854	78,813	197,626	934	4,501	673,728
Amortization and impairment						
Balance, beginning of year	67,836	32,193	111,562	934	2,040	214,565
Amortization	20,247	7,205	35,015	–	873	63,340
Impairment (Note 8)	13,078	740	5,932	–	–	19,750
Balance at December 31, 2017	101,161	40,138	152,509	934	2,913	297,655
Carrying amount at December 31, 2017	290,693	38,675	45,117	–	1,588	376,073

Included in other intangible assets are libraries acquired through other liabilities amounting to $222,000 ($990,000 in 2017).

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

10. TRADE AND OTHER PAYABLES

	2018	2017
	$	$
Trade accounts payable	**9,665**	7,500
Other payables	**20,019**	19,777
Financial liabilities	**29,684**	27,277
Sales taxes payable, wages and salaries payable and other non-financial liabilities	**4,716**	6,916
Trade and other payables	**34,400**	34,193

All trade and other payables are due in the short term.

11. NOTES PAYABLE

Acquisition of a Paysite assets

As part of the acquisition of the assets of a Paysite, the Group issued a note payable in the amount of $150,000 (Note 4). The note is non-interest bearing and is repayable March 2019.

Due to the short term nature of the repayment terms, the fair value of the purchase price payable approximates its nominal value.

Nutaku Entertainment S.à r.l.

As part of the acquisition of Nutaku, the Group issued a note payable in the amount of $1,500,000 (Note 4). The note is non-interest bearing and is repayable in 36 equal monthly installments beginning March 2018.

The fair value of the note payable at the date of the acquisition was $1,121,000. The fair value of the note payable was determined by discounting the cash flows using a rate of 20%.

	$
Note payable upon Nutaku share purchase	1,121
Payments made	(375)
Accretion interest	169
Balance, end of year	915
Current	399
Non-current	516
	915

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

11. NOTES PAYABLE (Continued)

Other ownership Interest

On June 1, 2018, the Group acquired a 49% ownership interest for a purchase price of $7,000,000, of which $271,333 was paid at closing and a note payable was issued for the remaining balance. The note is non-interest bearing and is repayable with an initial payment of $142,833 followed by 45 equal monthly instalments of $145,833 and a final payment of $23,349.

The fair value of the note payable at the date of the acquisition was $4,871,000. The fair value of the purchase price payable was determined by discounting the cash flows using a rate of 18%.

As a result of the acquisition, a $5,143,000 investment was recorded under "Non-current other assets" (Note 6) and is accounted for using the equity method. In addition, a gain of $1,664,000 was recognized in profit.

	$
Balance payable upon other ownership interest purchase	4,871
Payments made	(872)
Accretion interest	474
Balance, end of year	4,473
Current	1,076
Non-current	3,397
	4,473

MindGeek RK S.à r.l.

As part of the acquisition of MindGeek RK S.à r.l. ("RK"), in October 2013, the Group issued a non-interest bearing note payable in the amount of $200,000,000. Originally, the note was repayable in monthly instalments of $1,500,000 as of November 2013 until October 2023 and $1,666,667 thereafter through to October 2024.

The fair value of the note payable at the date of the acquisition was $45,845,000. The balance of purchase price payable was secured by an equity interest in RK. The balance of purchase price payable is subordinated to the borrowings (Note 14).

The fair value of the purchase price payable was determined by discounting the cash flows using a rate of 38.7%.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

11. NOTES PAYABLE (Continued)

MindGeek RK S.à r.l. (continued)

In December 2015, the Group finalized the assistance agreement that was put in place in conjunction with the acquisition of RK. Under this agreement, the Group agreed to pay an amount of $9,125,000, of which $1,000,000 was paid in January 2016. The balance is payable over 65 equal monthly payments of $125,000 beginning October 2018 and ending March 2024. The fair value of the additional amount payable was determined to be $2,745,000 by discounting the additional cash flows using a rate of 30%. The note payable and monthly instalments were modified to include these amounts.

During the year ended December 31, 2017, the noteholder sold a portion of the note to a third-party. As part of the sale, the Group received an amount of $1,900,000. This amount did not significantly modify the estimated cash flows associated with the note payable, and as such, was recognized against the carrying amount of the note payable and amortized over the remaining life of the liability.

The modified note is non-interest bearing and is repayable in monthly instalments as follows:

	$
October 2018 to October 2023	1,625
November 2023 to February 2024	1,792
March 2024 to October 2024	1,667

	2018	2017
	$	$
Balance, beginning of year	**48,205**	46,661
Amount received	**–**	1,900
Payments made	**(18,375)**	(18,000)
Accretion interest	**17,387**	17,644
Balance, end of year	**47,217**	48,205
Current	**2,802**	987
Non-current	**44,415**	47,218
	47,217	48,205

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

11. NOTES PAYABLE (Continued)

Other

As part of the acquisition of certain assets, the Group issued notes payable. These notes were non-interest bearing and repayable over various terms until 2018. The fair value of the notes payable was determined by discounting the cash flows using a reasonable discount rate.

	2018	2017
	$	$
Balance, beginning of year	**609**	2,794
Notes payable issued for the acquisition of assets during the year	**–**	404
Payments made	**(619)**	(3,280)
Accretion interest	**10**	691
Balance, end of year	**–**	609
Current	–	609
Non-current	–	–
	–	609

12. LEASES

Operating leases as lessee

The Group has operating lease commitments expiring at various dates through November 2032, principally for the rental of its premises.

The Group's future minimum operating lease payments are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
	$	$	$	$
December 31, 2018	**2,309**	**8,243**	**11,762**	**22,314**
December 31, 2017	4,553	17,105	22,315	43,973

Lease payments recognized as an expense during the reporting period amounted to $3,872,000 ($4,461,000 for the period ended December 31, 2017) and are included in "Other operating expenses" in profit or loss. This amount consists of minimum lease payments. Included in the future operating lease payments is an amount totaling approximately $8,814,000 (CA$12,009,000) as at December 31, 2018 and $10,206,000 (CA$12,831,000) as at December 31, 2017 with a company 50% owned by certain shareholders of the Group.

None of the operating lease agreements contain contingent rent clauses, purchase options or any restrictions regarding dividends, further leasing or additional debt.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

13. LICENSING LIABILITIES

The licensing liabilities outstanding as at December 31 are as follows:

	2018	2017
	$	$
Balance, beginning of year	**5,384**	7,439
Payments	**(3,690)**	(3,690)
Accretion interest	**1,058**	1,635
Balance, end of year	**2,752**	5,384
Current	**2,752**	2,632
Non-current	**-**	2,752
	2,752	**5,384**

The Group has licensing agreements that grant the Group the exclusive licenses to use the licensors' domain names and websites.

One of the licensing agreements is for a period of 5 years with the possibility for successive additional one-year renewal periods. Under this licensing agreement, the Group is committed to pay the licensor a license fee equal to the greater of a defined minimum guarantee or a percentage of the net revenues generated from the use of the license. The Group is required to make monthly payments in the amount of the greater of 50% of net revenues generated and $150,000 until August 2019.

The second licensing agreement is for a period of 5 years with automatic two-year renewal periods, unless notice is given not to renew. Under this licensing agreement, the Group is required to make monthly payments in the amount of the greater of 50% of the net operating income and $157,500 until December 2019.

Intangible assets, acquired libraries and corresponding licensing liabilities, were recognized and were calculated based on the estimated cash flows payable under the agreement, discounted at a rate of 25%

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

14. BORROWINGS

Borrowings include the following financial liabilities:

	2018	2017
	$	$
Term loan (Note 14.1)	**324,510**	326,910
Other (Note 14.2)	**48**	188
	324,558	327,098
Current portion	**43,495**	327,041
Non-current portion	**281,063**	57
	324,558	327,098

14.1 Term loan

General

On May 10, 2018, the Group entered into a new financing agreement (the "New Financing Agreement") to refinance its existing borrowings under the previous Financing Agreement amounting to $313,083,000 including the exit fee. Under the New Financing Agreement, the Group borrowed a term loan in the aggregate principal amount of $370,000,000.

The New Financing Agreement is secured by all of the property and assets, tangible and intangible, owned or hereafter acquired by the Group and each of the Group's subsidiaries is a guarantor to the New Financing Agreement.

The New Financing Agreement matures on the earliest of (i) May 10, 2024, (ii) the date on which the loan shall become due and payable in accordance with the terms of the agreement, and (iii) the payment in full of all obligations.

Amount drawn

As part of the refinancing, the Group drew a total principal amount of $370,000,000. The transaction costs related to the New Financing Agreement amounted to $20,615,000, including an original issue discount of $17,113,000 (representing 4.625% of the amount drawn). Such transaction costs were accounted for as a reduction of the term loan.

Exit fee

In connection with the previous Financing Agreement, a non-refundable exit fee was due at the maturity of the Financing Agreement. The exit fee was calculated as a percentage of the Group's specified valuation at the maturity date as defined under the previous the Financing Agreement.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

14. BORROWINGS (Continued)

14.1 Term loan (continued)

Interest

Borrowings under the New Financing Agreement bear interest at 9.93% per annum, payable monthly. In the event that the leverage ratio is not respected, the borrowings will bear interest at a rate of 11.93% per annum until the default is cured. As at December 31, 2018, the coupon rate was 9.93%, whereas the effective rate was 11.93% taking into account the amortization of the transaction costs related to the New Financing Agreement.

Borrowings under the previous Financing Agreement bore interest at a rate of 14% per annum, payable monthly, whereas the effective rate was 20.4%.

Repayment terms

The monthly instalments of principal are as follows:

	$
June 1, 2018 through and including May 31, 2020	4,000
June 1, 2020 through and including April 30, 2024	4,500

A final payment of the balance is due on the maturity date.

The Group is required to make additional repayments in certain cases when assets of the Group are disposed of, if additional indebtedness is incurred or upon certain issuance of equity.

The Group may at any time prepay the principal of the term loans or terminate the New Financing Agreement upon payment of a prepayment premium of:

- 8% from the closing date until the second anniversary date;
- 6% from the day following second anniversary date until the third anniversary date;
- 4% from the day following third anniversary date until fourth anniversary date;
- 2% from the day following fourth anniversary date until fifth anniversary date, and
- 0% following the fifth anniversary date.

14. BORROWINGS (Continued)

14.1 Term loan (continued)

Covenants

At the reporting date, the Group is required to respect certain covenant provisions of the New Financing Agreement. The Group is required to comply with certain reporting covenants on a monthly, quarterly and annual basis as well as to maintain a maximum leverage ratio measured on a bi-annual basis.

All of the covenants were respected during the year ended December 31, 2018 and as at the reporting date.

Other

The Group has entered into financing leases for the use of software. The financing lease agreements provide for instalments through July 2020.

	$
Not later than one year	33
Between one and five years	17
	50

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

14. BORROWINGS (Continued)

14.2 Other (continued)

The changes in the Group's borrowings are classified as follows:

				2018
	New Term loan	**Term loan**	**Other**	**Total**
	$	**$**	**$**	**$**
Balance, beginning of year	-	**326,910**	**188**	**327,098**
Cash-flows:				
Refinancing	**370,000**	-	-	**370,000**
Refinancing fees	**(20,615)**	-	-	**(20,615)**
Scheduled repayments	**(28,000)**	**(30,000)**	**(140)**	**(58,140)**
Reimbursement	-	**(313,083)**	-	**(313,083)**
Non-cash:				
Accretion interest	**3,125**	**16,173**	-	**19,298**
Balance, end of year	**324,510**	-	**48**	**324,558**

			2017
	Term loan	Other	Total
	$	$	$
Balance, beginning of year	378,855	130	378,985
Cash-flows:			
Scheduled repayments	(69,923)	(331)	(70,254)
Non-cash:			
Acquisition	–	365	365
Accretion interest	17,978	–	17,978
Other	–	24	24
Balance, end of year	326,910	188	327,098

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

15. OTHER LIABILITIES

The details of the other liabilities are as follows:

					2018
	Note payable to share-holder (a)	**Put option liability (b)**	**Investment incentive fee and priority distributions liabilities (c)**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Opening balance	**5,000**	**13,200**	**6,252**	**1,575**	**26,027**
Incentive fee and priority distribution liabilities	**-**	**-**	**61,403**	**-**	**61,403**
Rent liability	**-**	**-**	**-**	**3,528**	**3,528**
Change in fair value of put option liability	**-**	**2,400**	**-**	**-**	**2,400**
Payment	**-**	**-**	**(13,750)**	**(887)**	**(14,637)**
Accretion interest	**-**	**-**	**7,700**	**51**	**7,751**
Other	**-**	**-**	**-**	**222**	**222**
Ending balance	**5,000**	**15,600**	**61,605**	**4,489**	**86,694**
Current	**-**	**-**	**5,136**	**-**	**5,136**
Non-current	**5,000**	**15,600**	**56,469**	**4,489**	**81,558**
	5,000	**15,600**	**61,605**	**4,489**	**86,694**

					2017
	Note payable to share-holder (a)	Put option liability (b)	Investment incentive fee and priority distributions liabilities (c)	Other	Total
	$	$	$	$	$
Opening balance	5,000	7,900	10,680	1,354	24,934
Change in fair value of put option liability	–	5,300	–	–	5,300
Payment	–	–	(7,500)	–	(7,500)
Accretion interest	–	–	3,072	–	3,072
Other	–	–	–	221	221
Ending balance	5,000	13,200	6,252	1,575	26,027
Current	–	–	6,252	800	7,052
Non-current	5,000	13,200	–	775	18,975
	5,000	13,200	6,252	1,575	26,027

15. OTHER LIABILITIES (Continued)

(a) The note payable to a shareholder of a subsidiary bears interest at 8% annually, beginning in January 2014, and matures in October 2020.

(b) The holders of the class "B" shares of RK have the option to retract these shares in exchange for either cash or shares of MindGeek as determined by management of the Group ("put option"). The fair value of this put option has been estimated at $15,600,000 as at December 31, 2018 ($13,200,000 as at December 31, 2017).

(c) In conjunction with a contribution and subscription agreement entered into in 2013, the Group signed an agreement with the subscriber of the class “B” shares of RT Holding S.à r.l. ("RT") whereby such subscriber would receive an investment incentive fee of $5,000,000 per annum for each of 2014, 2015 and 2016 and $7,500,000 per annum for each of 2017 and 2018 payable in monthly instalments. In 2018, the Group amended the agreement whereby the subscriber is now entitled to receive an investment incentive fee of $10,000,000 per annum starting in 2018 and ending in 2024. In addition to the investment incentive fee, the subscriber of the class “B” shares is also entitled to receive an additional priority distribution of $10,000,000 in 2024. The change in liability related to amended agreement for the payment of the investment incentive fees and priority distribution was accounted for as a non-controlling interest of $43,554,000 and was determined by discounting the amounts payable over the term of the agreement using a rate of 18%.

In conjunction with the amendment of the agreement with the subscriber of the class "B" shares of RT, the Group signed an agreement with the subscriber of the class "C" shares of RT and the subscriber of the class "B" shares of RK whereby such subscriber would receive priority distributions in the amount of $1,250,000 per annum starting in 2018 and ending in 2024. The subscriber of the class “C” shares is also entitled to receive an additional priority distribution of $1,111,000 in 2024. The liability related to the payment of the priority distributions were accounted for as a non-controlling interest of $6,236,000 and was determined by discounting the priority payments payable over the term of the agreement using a rate of 18%.

The total fair value of these liabilities being $49,790,000 has been recorded in equity as a reduction of “Non-controlling interest”.

Lastly, in conjunction with the above, the owners of the Group would receive priority distributions in the amount of $2,500,000 per annum starting in 2018 and ending in 2024. The liability related to the payment of the priority distributions to the owners has been recorded in equity as a reduction of “Other reserves”. The fair value of the liability at the date of the transaction was $11,613,000 and was determined by discounting the priority distributions payable over the term of the agreement using a rate of 18%, and recorded in equity as a reduction of “Other reserves”.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

15. OTHER LIABILITIES (Continued)

(d) In 2018, the Group vacated one of its office spaces. As a result, a liability and a corresponding expense was recognized in "Other operating expenses" in the amount of $3,528,000. The fair value of the liability at the date of termination of the lease was determined by discounting the remaining lease payments and termination payment, net of the amounts recovered through sublease agreements, using a rate of 18%.

16. EQUITY

16.1 Share capital

The class "X" and "Y" shares of MindGeek consist of fully paid shares having a nominal value of $0.13 (€0.10) per share. Each share is voting and participating and is equally eligible to receive distributions in agreement with the shareholders' agreement.

16.2 Share capital — issued and fully paid

The issued and fully paid share capital is as follows:

				2018
	Number of shares	**Share capital**	**Share premium**	**Total**
Class "X" shares	**310,999**	**42**	**100**	**142**
Class "Y" shares	**1**	–	–	–

				2017
	Number of shares	Share capital	Share premium	Total
Class "X" shares	310,999	42	100	142
Class "Y" shares	1	–	–	–

16.3 Transactions with non-controlling interest

On April 6, 2018, 32,751 class "B" shares of RT were issued for a total cash consideration of $5,000.

This transaction resulted in the dilution of the ownership percentage of MindGeek in RT. However, as the dilution did not result in Mindgeek losing the control of RT, the transaction was accounted for as an equity transaction in the consolidated financial statements resulting in a change of $2,684,000 in the non-controlling interest in the net assets of RT.

In 2018, the Group amended the agreements with the subscribers of the class "B" and class “C” shares of RT and with the subscribers of the class “B” shares of RK, whereby the effect is described in Note 15 (c).

16. EQUITY (Continued)

16.4 Other components of equity

	2018	2017
	$	$
Currency translation reserve	**34**	79

17. FINANCIAL ASSETS AND LIABILITIES

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position, as well as financial assets and financial liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Unobservable input for the asset or liability.

The carrying amount and fair value of financial instruments presented in the consolidated statement of financial position related to the following categories of assets and liabilities are:

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

17. *FINANCIAL ASSETS AND LIABILITIES (Continued)*

Fair value measurement of financial instruments (continued)

	Notes	2018 Carrying amount $	2018 Fair value $
Financial assets measured at amortized cost			
Cash		32,097	32,097
Trade and other receivables, excluding non-financial assets	5	40,147	40,147
Security deposits and other assets		4,002	4,002
		76,246	76,246
Financial liabilities measured at amortized cost			
Trade and other payables, excluding non-financial liabilities	10	29,684	29,684
Licensing liabilities	13	2,752	2,752
Borrowings – Term loan (a)	14	324,510	315,612
Notes payable	11	52,755	77,811
Note payable to a shareholder	15	5,000	5,000
Investment incentive fee liability and priority distributions liabilities	15	61,605	61,605
Other liability	15	4,489	4,489
Financial liabilities at fair value through profit or loss			
Put option liability	15	15,600	15,600
		496,395	496,395

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

17. FINANCIAL ASSETS AND LIABILITIES (Continued)

Fair value measurement of financial instruments (continued)

	Notes	2017 Carrying amount $	2017 Fair value $
Financial assets measured at amortized cost			
Cash		7,410	7,410
Trade and other receivables, excluding non-financial assets	5	34,569	34,569
Security deposits and other assets		3,216	3,216
		45,195	45,195
Financial liabilities measured at amortized cost			
Trade and other payables, excluding non-financial liabilities	10	27,277	27,277
Licensing liabilities	13	5,384	5,781
Borrowings – Term loan (a)	14	326,910	343,796
Notes payable and other	11	48,814	78,429
Note payable to a shareholder	15	5,000	5,000
Investment incentive fee liability	15	6,252	6,925
Other liability	15	1,575	1,575
Financial liabilities at fair value through profit or loss			
Put option liability	15	13,200	13,200
		434,412	481,983

(a) The fair value of the debt excludes the transaction costs related to the New Financing Agreement. In 2017, the fair value of the debt also excluded the transaction costs related to the previous Financing Agreement, but included the discounted value of the estimated exit fee.

See Note 2.7 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is presented in Note 23.

The net carrying amount of the cash, trade and other receivables (excluding non-financial assets) and trade and other payables (excluding non-financial liabilities) are considered a reasonable approximation of fair value since all amounts are short-term in nature.

17. FINANCIAL ASSETS AND LIABILITIES (Continued)

Fair value measurement of financial instruments (continued)

The estimated fair values of the licensing liabilities, borrowings, notes payable related to business combinations, note payable to a shareholder, investment incentive fee and priority distribution liabilities, security deposits and other assets, and other liability are categorized within Level 2 of the fair value hierarchy. The fair value of the licensing liabilities, notes payable related to business combinations, borrowings, note payable to a shareholder, investment incentive fee and priority distributions liability, security deposits and other assets and other liability was calculated based on the discounted value of future payments using interest rates that the Group could have obtained as at the reporting date for such elements with similar terms and maturities.

The estimated fair value of the put option liability is categorized within Level 3 of the fair value hierarchy. The fair value was determined based on discounted cash flows of the underlying investment of the shares (see Note 15 (b)).

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

18. INCOME TAXES

Deferred taxes arising from temporary differences are summarized as follows:

Deferred tax liabilities (assets)

	January 1, 2018	Recognized on investment in associate	Recognized in profit or loss	December 31, 2018
	$		$	$
Current assets				
Inventories	(1,535)	–	266	(1,269)
Non-current assets				
Property and equipment	(202)	–	(271)	(473)
Other intangible assets	46,792	–	(1,364)	43,128
Unused tax losses	(43,628)	–	527	(40,801)
	2,962	–	(1,108)	1,854
Current liabilities				
Trade and other payables	(784)	–	(387)	(1,171)
Non-current liabilities				
Licensing liabilities	(498)	–	224	(274)
Borrowings	(8,522)	–	8,380	(142)
Balance of purchase price payable	19,716	231	(4,598)	15,349
Investment incentive fee liability	(4,330)	–	4,330)	–
	6,366	231	8,336	14,933
Net deferred tax (assets) liabilities	7,009	231	7,107	14,347
Recognized as				
Deferred tax assets	2,817			2,817
Deferred tax liabilities	9,826			17,164

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

18. INCOME TAXES (Continued)

Deferred tax liabilities (assets) (continued)

	January 1, 2017	Recognized in profit or loss	December 31, 2017
	$	$	$
Current assets			
Trade and other receivables	(11)	11	–
Inventories	(1,594)	59	(1,535)
	(1,605)	70	(1,535)
Non-current assets			
Property and equipment	(322)	120	(202)
Other intangible assets	55,387	(8,595)	46,792
Unused tax losses	(52,273)	8,645	(43,628)
	2,792	170	2,962
Current liabilities			
Trade and other payables	(1,179)	395	(784)
Non-current liabilities			
Licensing liabilities	(247)	(251)	(498)
Borrowings	(7,881)	(641)	(8,522)
Balance of purchase price payable	27,946	(8,230)	19,716
Investment incentive fee liability	(3,967)	(363)	(4,330)
	15,851	(9,485)	6,366
Net deferred tax (assets) liabilities	15,859	(8,850)	7,009
Recognized as			
Deferred tax assets	3,109		2,817
Deferred tax liabilities	18,968		9,826

As at December 31, 2018, the Group has approximately $506,000,000 ($561,000,000 as at December 31, 2017) of unused tax losses and approximately $88,000,000 ($94,000,000 as at December 31, 2017) of deductible temporary differences for which no deferred tax assets are recognized in the consolidated statement of financial position. The unused tax losses can be carried forward for a period of 17 years as of January 2017. Losses prior to that can be carried forward indefinitely. Approximately $493,000,000 of the unrecognized losses can be carried forward indefinitely and $13,000,000 can be carried forward to 2035.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

18. INCOME TAXES (Continued)

Tax expense

The major components of income tax expense are detailed as follows:

	2018	2017
	$	$
Current tax	**7,470**	9,222
Withholding taxes	**1,540**	1,422
Deferred tax		
Origination and reversal of temporary differences	**7,107**	(8,850)
Tax expense	**16,117**	1,794

The relationship between the expected income tax expense based on the domestic tax rate of the Group and the reported income tax expense in profit or loss are reconciled as follows:

	2018	2017
	$	$
Profit before tax	**38,331**	9,681
Domestic tax rate	**26.01%**	27.08%
Expected tax expense	**9,970**	2,622
Adjustment for tax rate differences in foreign jurisdictions	**(1,976)**	308
Tax benefit from previously unrecognized tax losses	**(2,582)**	–
Adjustment for income taxed at lower rates	**(7,761)**	(13,957)
True-up of prior year taxes	**244**	2,013
Deferred tax assets not recognized during the period	**13,111**	8,594
Adjustment for change in fair value of put option liability	**624**	1,435
Impact of change in rate	**–**	(1,457)
Dividends	**601**	561
Non-deductible expenses	**2,241**	231
Withholding taxes	**1,540**	1,422
Other	**105**	22
Tax expense	**16,117**	1,794

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

19. INFORMATION INCLUDED IN PROFIT AND LOSS

19.1 Employee salaries and benefits expense

Expenses recognized for employee salaries and benefits are analyzed below:

	2018	2017
	$	$
Wages, salaries and other compensation	**65,566**	59,602
Social security costs	**5,168**	5,427
Pension-state defined contribution plans	**2,032**	2,204
Employee salaries and benefits expense	**72,766**	2,204

19.2 Depreciation, amortization and loss on disposal of non-financial assets

	Notes	**2018**	2017
		$	$
Depreciation of property and equipment	7	**3,921**	4,716
Amortization of other intangible assets	9	**58,381**	63,340
Loss on disposal of property and equipment other than termination agreement		**–**	43
Loss (gain) on disposal of websites		**129**	39
Depreciation, amortization and loss on disposal of non-financial assets		**62,431**	68,138

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

19. INFORMATION INCLUDED IN PROFIT AND LOSS (Continued)

19.3 Finance costs

Finance costs may be analyzed as follows:

	Notes	2018	2017
		$	$
Accretion interest on borrowings	14	**19,298**	17,978
Interest paid on borrowings		**37,806**	50,127
Loan servicing fees		**3,743**	5,960
Finance costs related to borrowings		**60,847**	74,065
Accretion interest on notes payable and other	11	**18,040**	18,761
Accretion interest on licensing liabilities	13	**1,058**	1,635
Accretion interest on other liabilities	15	**7,751**	3,072
Interest on other liabilities	15	**400**	400
Other finance costs		**10**	15
		27,259	23,883
Accretion interest income on balance of sale receivable		**(365)**	(483)
Accretion interest income on other assets		**(359)**	(701)
Other finance revenues		**(49)**	–
Finance income		**(773)**	(1,184)
		26,486	22,699
Total finance costs		**87,333**	96,764

19.4 Other information

The cost of inventories recognized as an expense and included in "Other operating expenses" amounted to $583,000 ($539,000 for the year ended December 31, 2017).

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

20. ADDITIONAL INFORMATION – CASH FLOWS

The net changes in working capital items are detailed as follows:

	2018	2017
	$	$
Trade and other receivables	**(5,905)**	1,608
Inventories	**(103)**	(4)
Prepaid expenses	**(2,797)**	(68)
Trade and other payables	**(1,888)**	4,829
Deferred revenue	**7,741**	5,538
	(2,952)	11,903

21. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and key management personnel are disclosed below.

Key management personnel of the Group include members of the board of managers and key executives of the Group.

	2018	2017
	$	$
Salary and employee benefits and total remuneration of key management personnel	**6,540**	6,654
Interest paid on note payable to a shareholder	**400**	400

These transactions were concluded in the normal course of business and are measured at the exchange amount.

22. CONTINGENCIES AND COMMITMENTS

Claims

In the normal course of operations, the Group is contingently liable with respect to litigations and claims that arise from time to time. In the opinion of management, any liability, which may arise from such contingencies, would not have a material adverse effect on the Group's consolidated financial statements. The evaluation of litigations and claims is subject to uncertainties and the ultimate future resolution of the litigations and claims which cannot be predicted.

Commitments

As at December 31, 2018, the Group has commitments aggregating approximately $23,224,000 through the year 2020 for hosting agreements, content libraries agreements, security contracts and mobile traffic buying arrangements. The minimum payments are $18,923,000 within one year and $4,301,000 between one to five years.

23. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities are summarized in Note 17. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated in close cooperation with the shareholders of the Group and focuses on actively securing the Group's short-to-medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

23.1 Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and financing activities.

Foreign currency sensitivity

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

23. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

23.1 Market risk analysis (continued)

Foreign currency sensitivity (continued)

Most of the Group's transactions are carried out in U.S. dollars. Exposures to the risk of changes in foreign currency exchange rates arise mainly from the Group's operating activities (when revenues or expenses are denominated in a different currency than the Group's entities' functional currency). Such other currencies include the Canadian dollar (C$), the Euro (€) and the U.K. pound sterling (£).

Foreign currency denominated financial assets and liabilities, which expose the Group to foreign currency risk are described below. The amounts shown are those reported to key management translated into U.S. dollars at the closing rate.

			2018
	Short-term exposure	**Short-term exposure**	**Short-term exposure**
	C$	**€**	**£**
	US$	**US$**	**US$**
Financial assets	**300**	**11,793**	**2,096**
Financial liabilities	**1,224**	**2,173**	**500**
Total exposure	**(924)**	**9,620**	**1,596**

			2017
	Short-term exposure	Short-term exposure	Short-term exposure
	C$	€	£
	US$	US$	US$
Financial assets	(293)	7,133	427
Financial liabilities	2,747	425	–
Total exposure	(3,040)	6,708	427

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

23. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

23.1 Market risk analysis (continued)

Foreign currency sensitivity (continued)

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the C$/US$, €/US$ and £/US$ exchange rates, with other variables being constant. It assumes an 11% (11% in 2017) change of the C$/US$ exchange rates, a 11% (12% in 2017) change of the €/US$ exchange rates and a 14% (9% in 2017) change of the £/US$ exchange rates. These percentages have been determined based on the average volatility in exchange rates in the previous 12 months (12 months in 2017). The sensitivity analysis is based on the Group's foreign currency financial instruments held at the reporting date.

If the U.S. dollar had strengthened against the C$ by 11% (11% in 2017), the € by 11% (12% in 2017) and the £ by 14% (9% in 2017), respectively, then this would have had the following impact:

	Profit for the period			
	C$	€	£	Total
	US$	US$	US$	US$
December 31, 2018	**(102)**	**1,036**	**226**	**1,160**
December 31, 2017	(328)	806	37	515

	Equity			
	C$	€	£	Total
	US$	US$	US$	US$
December 31, 2018	**(102)**	**1,036**	**226**	**1,160**
December 31, 2017	(328)	806	37	515

An equal and opposite impact on profit for the period and equity would result if the U.S. dollar had weakened against the C$ by 11% (11% in 2017), the € by 11% (12% in 2017) and the £ by 14% (9% in 2017).

Exposure to foreign currency exchange rates varies during the period depending on the volume of transactions in foreign currency. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Interest rate sensitivity

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's financial instruments that bear interest are the term loan and the note payable to a shareholder of a subsidiary.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

23. *RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)*

23.2 Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group.

The Group is exposed to this risk for various financial instruments, including cash, trade and other receivables (excluding non-financial assets) and security deposits and other assets. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

	2018	2017
	$	$
Cash	**32,097**	7,410
Trade accounts receivable	**29,412**	26,534
Transaction payment processors' reserves	**8,102**	8,035
Other receivables	**–**	–
Security deposits and other assets	**4,002**	3,216
Carrying amount	**73,613**	45,195

Cash

Credit risk associated with cash is substantially mitigated by ensuring that cash is placed with major financial institutions that have been accorded investment grade ratings by a primary rating agency and qualify as creditworthy counterparties. The Group performs an ongoing review and evaluation of the possible change in the status and credit worthiness of its counterparties.

Trade accounts receivable, other receivables, security deposits and transaction payment processors' reserves

Credit risk with respect to trade accounts receivable, other receivables, security deposits and transaction payment processors' reserves is limited due to the Group's credit evaluation process, reasonably short collection terms and the creditworthiness of its counterparties. Credit risk related to trade accounts receivable from subscription revenues is mitigated as such revenues are processed by and ultimately receivable from reputable transaction payment processors. The transaction payment processors hold back reserves on the payment of receivables to the Group or a period of up to six months. The Group regularly monitors its credit risk exposures and takes steps to mitigate the likelihood of such exposures from resulting in actual losses.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

23. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

23.2 Credit risk analysis (continued)

Trade accounts receivable, other receivables, security deposits and transaction payment processors' reserves (continued)

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past.

The expected loss rates are based on the payment profile of revenues as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking factors affecting the customer's ability to settle the amount outstanding.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery.

The closing balance of the trade accounts receivable loss allowance as at December 31, 2018 reconciles with the trade accounts receivable loss allowance opening balance as follows:

	2018	2017
	$	$
Opening loss allowance as at January 1	**3,005**	962
Loss allowance recognized during the year	**1,829**	2,121
Receivables written off during the year	**(621)**	(78)
Loss allowance unused and reversed during the year	**(41)**	–
Loss allowance as at December 31	**4,172**	3,005

23. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

23.3 Liquidity risk analysis

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities and obligations as they come due. The Group is exposed to this risk mainly through its current and non-current financial liabilities. The Group finances its operations mainly through cash flows from operations and borrowings.

The Group manages its liquidity needs by monitoring scheduled payments for its financial liabilities as well as forecast cash inflows and outflows from day-to-day operations. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis below.

Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Group has financing sources available, if necessary. The Group establishes budgets, cash estimates and cash management policies to ensure it has the necessary funds to fulfill its obligations for the foreseeable future.

The Group's future liquidity is dependent on factors such as the ability to generate cash flows from operations. Based on management's forecasts for the 2019 fiscal year, cash flows from operations are expected to be greater than the original contractual maturities of the Group's financial liabilities and capital expenditures for the period.

The Group's financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

(Amounts in U.S. dollars, tabular amounts expressed in thousands) 73

23. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

23.3 Liquidity risk analysis (continued)

				2018
		Current		**Non-current**
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
	$	**$**	**$**	**$**
Trade and other payables	**29,684**	–	–	–
Notes payable and other licensing liabilities	**12,870**	**12,120**	**83,023**	**16,917**
Borrowings	**40,363**	**39,435**	**289,254**	**63,455**
Other liabilities	**7,388**	**7,180**	**66,904**	**24,861**
Total	**90,305**	**58,735**	**439,181**	**105,233**

				2017
		Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years
	$	$	$	$
Trade and other payables	27,277	–	–	–
Notes payable and other licensing liabilities	11,140	11,220	81,090	36,750
Borrowings	64,493	309,644	58	–
Other liabilities	4,750	3,950	7,080	–
Total	107,660	324,814	88,228	36,750

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the reporting date. Where the counterparty has a choice of when an amount is paid, the liability has been included on the earliest date on which payment can be required.

24. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's primary capital management objectives are: i) to provide an adequate return to its shareholders; ii) to minimize, to the extent possible, the risks associated with its shareholders' investments in the Group; iii) to safeguard the Group's assets and its ability to continue as a going concern; and iv) to provide the financial capacity and flexibility to meet strategic objectives and growth.

The capital structure of the Group consists of cash, borrowings and equity including non-controlling interest of the Group as follows:

	2018	2017
	$	$
Cash	**32,097**	7,410
Borrowings	**324,558**	327,098
Equity including non-controlling interest	**(36,378)**	21,605

The Group manages its capital structure in accordance with its expected business growth and operational objectives and makes adjustments in light of changes in underlying industry, market and economic conditions. Accordingly, the Group will determine, from time to time, its capital requirements and develop a plan to meet its capital requirements.

In meeting its objective of providing an adequate return to its shareholders, the Group undertakes measures to maintain and grow its earnings before interest, taxes, depreciation and amortization. Such measures include organic growth and business combinations.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

25. SUBSIDIARIES

The consolidated financial statements of MindGeek comprise the following subsidiaries:

Name	Country of incorporation	Percentage of ownership 2018	2017
		%	%
Licensing IP International S.à r.l.	Luxembourg	**95.29**	95.29
MG Ex US Holding S.à r.l. [(3)]	Luxembourg	**29.91**	32.60
MG Ex-US S.à r.l. [(3)]	Luxembourg	**29.91**	32.60
MG Freesites S.à r.l. [(1)]	Luxembourg	**–**	95.29
MG IP I S.à r.l. [(1)]	Luxembourg	**–**	95.29
MG IP II S.à r.l. [(1)]	Luxembourg	**–**	95.29
MG IP S.à r.l.	Luxembourg	**95.29**	95.29
MG Licensing Europe S.à r.l. [(3)]	Luxembourg	**29.91**	32.60
MG Luxembourg S.à r.l. [(1)]	Luxembourg	**–**	32.60
MG Mainstream S.à r.l. [(1)]	Luxembourg	**–**	95.29
MG Media S.à. r.l.	Luxembourg	**95.29**	95.29
MG Premium S.à r.l.	Luxembourg	**95.29**	95.29
MG Reality S.à r.l. [(3)]	Luxembourg	**29.91**	32.60
MindGeek RK S.à r.l.	Luxembourg	**95.29**	95.29
MG Technologies S.à r.l. [(1)]	Luxembourg	**–**	95.29
RT Holding S.à r.l. [(3)]	Luxembourg	**29.91**	32.60
Nutaku Entertainment S.à r.l. (formerly DMMG S.à r.l.) [(2)]	Luxembourg	**95.29**	46.69
MG JVP S.à r.l.	Luxembourg	**95.29**	95.29
MG Germany GmbH [(3)]	Germany	**29.91**	32.60
MG Billing US Corp.	United States	**95.29**	95.29
MG DP Corp. [(1)]	United States	**–**	95.29
MG Holdings USA Corp.	United States	**95.29**	95.29
MG Processing Corp. [(1)]	United States	**–**	-
MG Processing II Corp. [(1)]	United States	**–**	95.29
MindGeek USA Incorporated	United States	**95.29**	95.29
MG Global Entertainment Inc. (formerly Playboy Plus Entertainment Inc.)	United States	**95.29**	95.29
RK Holdings US LLC [(1)]	United States	**–**	95.29
Y-Tel Wireless, LLC [(1)]	United States	**–**	95.29
Seabreeze Marine Ventures Limited [(3)]	British Virgin Islands	**29.91**	32.60
MG Technologies Ltd.	Cyprus	**95.29**	95.29
Nutaku Entertainment Ltd. (formerly MG Mainstream Ltd.)	Cyprus	**95.29**	95.29

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

25. SUBSIDIARIES (Continued)

Name	Country of incorporation	Percentage of ownership 2018	2017
		%	%
Colbette II Ltd. [3]	Cyprus	**29.91**	32.60
Cygest Trading Limited	Cyprus	**95.29**	95.29
MG Freesites Ltd.	Cyprus	**95.29**	95.29
Donormass Limited	Cyprus	**95.29**	95.29
MG Premium Ltd.	Cyprus	**95.29**	95.29
MG Freesites II Ltd.	Cyprus	**95.29**	95.29
MG Billing CY Ltd.	Cyprus	**95.29**	95.29
MG CY Holding Ltd	Cyprus	**95.29**	–
MG Cyprus Ltd.	Cyprus	**95.29**	95.29
MG Global Entertainment (Europe) Limited	United Kingdom	**95.29**	95.29
9219-1568 Quebec Inc.	Canada	**95.29**	95.29
9279-2738 Quebec Inc.	Canada	**95.29**	95.29
M.Y.S. Real Estate Inc.	Canada	**95.29**	95.29
Reimsberg Developments Inc.	Canada	**95.29**	95.29
Midstream Media International N.V.	Curacao	**95.29**	95.29
STV International B.V.	Netherlands	**95.29**	95.29
MG Billing Limited (formerly MG Billing Ireland Limited)	Ireland	**95.29**	95.29
MG Content DP Limited	Ireland	**95.29**	95.29
MG Content RK Limited	Ireland	**95.29**	95.29
MG Content RT Limited	Ireland	**95.29**	95.29
MindGeek Ireland Holding Limited	Ireland	**95.29**	95.29
MG Hosting Limited	Ireland	**95.29**	95.29
Mirmay Limited	Ireland	**95.29**	95.29
Super Hippo Studios Limited	Ireland	**95.29**	95.29
Liquidium Limited	Ireland	**95.29**	95.29
Appatomic Limited	Ireland	**95.29**	95.29
MG Content SC Limited	Ireland	**95.29**	95.29
Super Hippo Studios RO SRL	Romania	**95.29**	95.29

(1) During the year ended December 31, 2018, these subsidiaries were dissolved.

(2) On February 19, 2018, the Group acquired the remaining portion of this entity, resulting in a 95.29% ownership. In addition, the name of the entity was changed to Nutaku Entertainment S.à r.l.

(3) During the year ended December 31, 2018, the non-controlling interests in these subsidiaries were increased (Note 16.3). The shareholders' agreement provides MindGeek with certain rights and conditions that effectively allow MindGeek to control all of its subsidiaries even though it does not have the majority of the share ownership.

(Amounts in U.S. dollars, tabular amounts expressed in thousands)

Group reorganization

In December 2018, the Group completed the reorganization of its European corporate structure (the "Reorganization"). The main goals of the reorganization effort were to better align the Group's operations in fewer operating companies, simplify the Group's cash management functions, centralize website operations in Cyprus and Reduce the overall number of legal entities thereby reducing the overall costs related to statutory, legal, tax and other filings. The Reorganization add no impact on the Group's financial results.

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

27. AUDIT FEES

The fees incurred by the Group and due for the current period to the audit firm are as follows:

	2018	2017
	$	$
Audit	**1,170**	1,122
Tax	**1,530**	1,882
Others	**564**	58
	3,264	3,062

28. SUBSEQUENT EVENTS

Term loan
Subsequent to year end, the Group amended the new financing agreement to provide an additional term loan with identical terms as the original loan in the amount of $25,000,000. The additional loan was used to partially fund an acquisition of assets closed on the same date.

Acquisition of assets that operate in the adult industry
Subsequent to year end, the Group acquired certain assets that operate in the adult industry. The assets acquired were primarily trademarks, domain names, customer relationship and non-compete agreements. The assets acquired were determined to constitute a business and accordingly, the acquisition will be accounted for using the acquisition method of accounting.

The total purchase price was $30,000,000. The purchase price was settled in a $29,750,000 cash payment at closing. A $250,000 security deposit was paid in February 2019 upon execution of a letter of intent related to the acquisition which was also applied to the purchase price.

The purchase price allocation ("PPA") for the Acquisition will be completed in conjunction with the finalization of the 2019 financial statement and allocation of the purchase price between the acquired assets will be reflected in the 2019 financial statements.

28. SUBSEQUENT EVENTS (Continued)

Production agreement termination
Subsequent to year end, the Company terminated an existing production agreement with a major producer. As a result of the termination without cause, the Group agreed to pay the producer an amount equal to $3,481,000. This amount was paid in full on the termination date.